NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

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WHITE PAPER

ARE YOU READY FOR PRIORITY DRIVEN BUDGETING ?

Transforming Financial Management for Government

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Are you ready for priority driven budgeting ?

Government decision-making involves choosing how to allocate limited resources among several competing demands. When government needs to make decisions to balance the relative merits of multiple diverse factors and needs, resources are frequently allocated using subjective decision-making. Often, this approach is used due to the lack of real time data. Particularly, quantitative outcome measures are nothing more than mental frameworks providing parameters or constraints for making final judgments.

Anyone who has studied economics, even though a lone high school course, is familiar with the concept of resource scarcity. Supply limitations imply governments need unbiased mechanisms to coordinate how these resources are allocated among those in need.

Subjectivity is common when implementing budget allocation strategies. This does not imply negligence. Rather, it is a natural course of personal judgement, interpretations, and opinions on the part of decision makers after reviewing and analyzing the information. Subjective criteria require judgment in their application. Therefore, people can differ in opinion on whether a particular budget request possesses and meets collective objectives.

And, while subjectivity may streamline decision making, one cannot be completely sure. Herein lies the problem. If there is a lack of data analysis in the process, particular allocations may lead to unplanned failures instead of improvement, exposing a misallocation of resources.

While instinct often serves us well, it can betray at times. The subjective approach is typically applied believing it offers the most rapid method to make budget allocation decisions. With a subjective review, key risks include:

- Decision-makers have varying preconceptions which often impact their recommendations.
- Competing priorities may be assigned dissimilar weights by different decision makers.
- Decision making is not transparent.
- Limited dollars may not be used in the most cost-effective manner.
- Outside factors may be ignored—including expiration of funds or programs.

Opinion is easy to challenge and hard to defend. When it comes to effective and equitable resource allocation, governments cannot let unconfirmed opinions drive decisions. This approach can subvert budget decision making, particularly when it comes to base budget and deploying funds optimally. A nonrational approach avoids strategic review and deliberation of the entire budget. This creates a use-it-or-lose-it mentality and promotes across-the-board budget cuts, ignoring prioritization factors other than a percentage. This also restricts spending flexibility for agencies who must use funds based on outside factors such as public interest or federally imposed guidelines.

This method of resource allocation supports incremental budgeting, the traditional approach to governmental budgeting whereby the current year's budget becomes the basis for the next year's spending plan. While an incremental approach can be quite viable, it ultimately lacks scrutiny during those times when revenues and expenditures are in balance. However, this approach to budgeting is often ill-equipped to address the financial challenges posed by the new normal of flat or declining revenues, upward cost pressures from health care, pensions, inflation, and service demands. It also promotes most of the organization's analytical and political attention to focus on marginal changes to the current spending plan based on revenues anticipated in the next year. Most importantly, it risks a structural imbalance in future budgets.

After examining the different ways government resource allocation decisions are made, it is clear the process is not straightforward. Inevitably, there will be an element of subjectivity, making it difficult to list proposals from best to worst in a purely objective manner. In a perfect world, readily available data would allow for the prioritization process to be completely objective. We do not live in such a world, so decision making becomes a mix of quantitative, qualitative, monetized, and non-monetized information.

In recent years, government budgeting has become more interconnected and data-driven. Consequently, most — if not all — budget offices are discovering the need to build more robust data management and analytics capabilities with greater emphasis on outcomes and results. API-led data integration is also key for unlocking existing data in legacy systems.

With the demand for metric-based decision making, a new, evolving method to allocate government funds is priority-based budgeting. This alternate method evaluates the relative importance of individual programs, services, and budget requests with quantitative analysis. The key benefit of priority-based budgeting is to dissociate decision-making from account numbers and line items. It instead bases funding allocations on the programs and services that are proven and align with priorities of the government, its citizens, and sourcing requirements.

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Priority-driven budgeting is a common sense, strategic alternative to incremental budgeting. It is both a philosophy of how to budget scarce resources and a structured, although flexible, step-by-step process for doing so. The core tenet of priority-driven budgeting is to allocate resources creating the greatest value to the community. In a priority-driven approach, a government identifies its most important strategic priorities, and then, through a collaborative, evidence-based process, ranks programs or services according to how well they align with the priorities. The government then allocates funding in accordance with the ranking.

Below is a summary of some of the key principles associated with priority budgeting as identified by the Government Finance Officers Association in a recent study.

- **Prioritize Services**. Priority-driven budgeting evaluates the relative importance of individual programs, projects, and services. It is distinguished by prioritizing these one versus another.

- **Do the Important Things Well**. Cut Back on the Rest. In a time of revenue decline, a traditional budget process often attempts to continue funding all the same things it funded last year, albeit at a reduced level (e.g., across-the-board budget cuts). Priority-driven budgeting identifies the programs, projects, and services that offer the highest value and continues to provide funding for them, while reducing service levels, divesting, or potentially eliminating those of lower value.

- **Question Past Patterns of Spending.** An incremental budget process does not seriously question the spending decisions made in years past. Priority-driven budgeting puts all the money on the table to encourage more creative conversations about which transportation project to fund.

- **Spend Within the Organization's Means.** Priority-driven budgeting starts with the resources available, rather than last year's expenditures, as the basis for decision making.

- **Know the True Cost of Doing Business**. Focusing on the full costs of projects ensures that funding decisions are based on the full cost of providing a service.

- **Provide Transparency of Community Priorities**. When budget decisions are based on a well-defined set of community priorities, the government's aims are not left open to interpretation.

- **Provide Transparency of Project Impact**. In traditional budgets, it is often not entirely clear how funded services make a real difference in the lives of citizens. Under priority-driven budgeting, the focus is on the results the project produces for achieving community priorities.

- **Demand Accountability for Results**. Traditional budgets focus on accountability for staying within spending limits. Beyond this, priority-driven budgeting demands accountability for results that were the basis for a project's budget allocation.

The Performa Group's budgeting software, BIDS (Budget Intelligence Development System) enables you to objectively prioritize operating and capital requests, programs, and transportation projects. This BIDS functionality harnesses user defined criteria to create algorithms ranking of programs and services and can be used to prioritize budget requests. Priorities and their associated weights can easily be modified and captured in different budget scenarios.

BIDS provides a method of comparing projects on a 'like for like' basis at gateways in the decision cycle. This ensures only services/budget requests delivering optimum benefits, at the lowest risk, are given the highest priority. BIDS can then monitor the delivery of key milestones, deliverables, and benefits.

The agility afforded by BIDS helps governments make data-driven decisions which align budget resources with the highest priorities and provide the services people care about and need the most.